MULTIMEDIA **UNIVERSITY**

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FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC3684 – SECURITIES INVESTMENT AND PORTFOLIO MANAGEMENT
(All sections / Groups)

25 OCTOBER 2017
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FIVE(5)** printed pages.

2. Answer **ALL** questions.

3. Marks are shown at the end of each question.

Question 1 (25 Marks)

Recent financial information relating to AYDAN Berhad is as follows:

	RM'000
Operating profit	3450
Interest	200
Profit before taxation	3250
Taxation	650
Profit after taxation	2600
Dividends	2000
Ordinary Shares (nominal value 50 cents)	7000

AYDAN Berhad is an online wholesaler of wet market. The company needs to raise RM3,150,000 for its capital expenditure.

The funds invested would earn a before-tax return of 18% per year. The profit tax rate paid by the company is 20% per year. AYDAN Berhad has a cost of equity of 8% per year, which is expected to remain constant. Required:

a) AYDAN Berhad could suspend dividends for two years, and then pay dividends of 20 cents per share from the end of the third year, increasing dividends annually by 4% per year in subsequent years. Dividends in recent years have grown by 4% per year as well. Using the dividend valuation model, calculate the value of AYDAN Berhad, and advise whether their decisions will be acceptable to shareholders.

(17 marks)

b) Discuss the factors to be considered in choosing between traded bonds, new equity issued via a placing and venture capital as sources of finance.
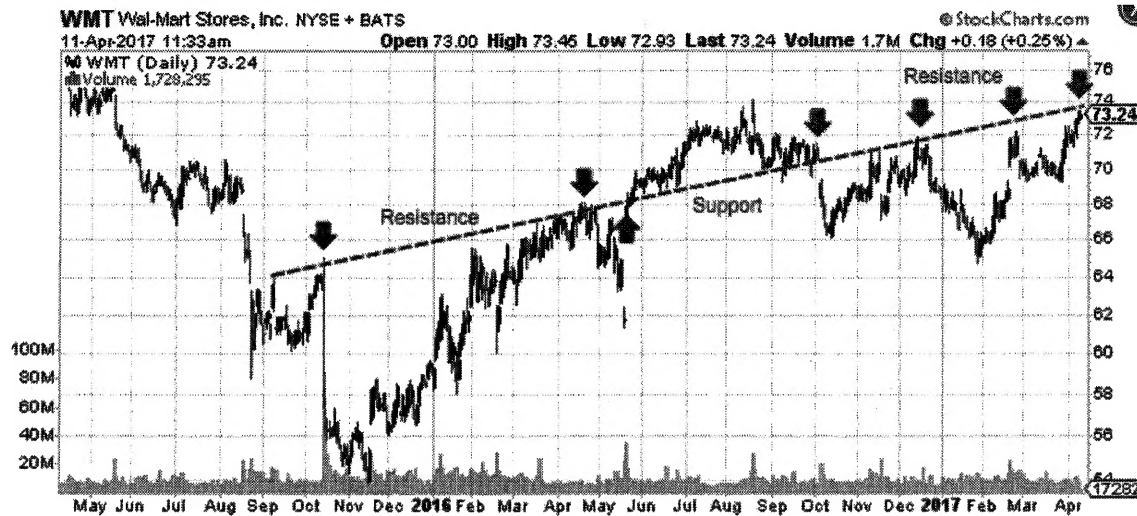
(8 marks)

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Question 2 (25 Marks)

a)   What does the moving average line indicates and what is the indicator for bullish and bearish trend based on the support, resistance level and trend line?

(8 marks)

b)   Discuss the effect of Efficient Market Hypotheses (EMH) on stock markets volatility?

(5 marks)

c)   In the United States, the central bank or Federal Reserve (the Fed) is tasked with maintaining a certain level of stability within the country's financial system. Similarly in Malaysia, Bank Negara Malaysia (the Central Bank of Malaysia), is governed by the Central Bank of Malaysia Act 2009 to manage the country's financial system. Discuss how monetary policy as practiced by the central banks stimulate a weak economy.

(7 marks)

d)   Assuming that the dividend payout for Peydan Coke Berhad is 0.343 percent. The net income after taxes is RM 11,809 and stockholders' equity is RM 31,003. Calculate the internal growth rate of Peydan Coke Berhad.

(5 marks)

Continued...

Question 3 (25 Marks)

XYZ Co, whose home currency is the dollar, trades regularly with customers in a number of different countries. The company expects to receive €3,400,000 in six months' time from a foreign customer. Current exchange rates in the home country of XYZ Co are as follows:

Spot exchange rate: 4·1800–4·2100 euros per RM

Six-month forward exchange rate: 4·2304–4·2608 euros per RM

Twelve-month forward exchange rate: 4·2827–4·3134 euros per RM

Required:

a) Calculate the loss or gain compared to its current dollar value which XYZ Co will incur by taking out a forward exchange contract on the future euro receipt, and explain why taking out a forward exchange contract may be preferred by XYZ Co to not hedging the future euro receipt.
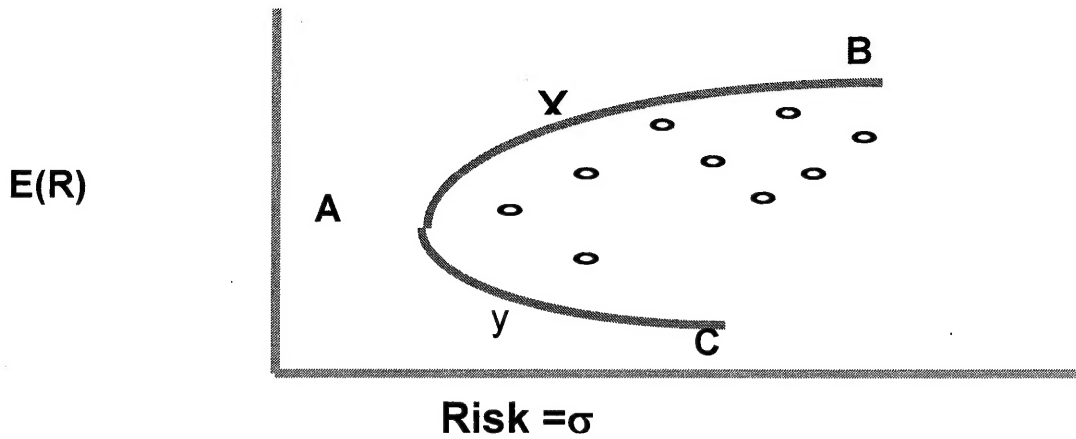
(17 marks)

b) Discuss whether XYZ Co should avoid exchange rate risk by invoicing foreign customers in dollars.

(8 marks)

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Question 4 (25 Marks)

a) Diversification is key to optimal risk management. Discuss the efficient frontier allocation.

(6 marks)

b)

Stocks	Correlation			
	Standard deviation (%)	A	B	C
A	12	1.0		
B	8	0.75	1.0	
C	22	0.28	0.98	1.0

(i) Assuming equal weights for each stock, what are the standard deviations for the following portfolios?

(6 marks)

(ii) In part (i), which portfolio(s) would an investor prefer if portfolio A&B return is 22%, portfolio A&C return is 18% and portfolio B&C is 27%?

(4 marks)

Continued...

c) Listed below are the option quotes on ABC, Inc., in January of this year.

Options/Strike		-------Calls-------		------Puts----	
		March	June	March	June
JUP	35	3 1/2	4	1/2	1 1/8
37	40	1 1/2	2	4 1/2	5
37	45	1	1 1/2	8 3/8	s
37	50	1/2	r	r	s

*r- not traded

s-no option offered

(i)   Which calls are in the money?

(3marks)

(ii)   Which puts are in the money?

(3marks)

(iii)   Calculate the intrinsic value of the March 40 put.

(3marks)

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